Logistics Service Providers: Literature Review And Case Study Analysis

Part A – Literature Review

Introduction

The concept of Logistics and Supply Chain Management has evolved over the years; however, they have both been recognized as key opportunities for improving the success and competitive advantage of organizations.

Logistics is the process of strategically managing the procurement, movement and storage of materials, parts and finished inventory (and the related information flows) through the organisation and its marketing channels in such a way that current and future profitability are maximised through cost-effective fulfilment of orders. (Christopher, 2011).

Supply Chain Management is the management of upstream and downstream relationships with suppliers and customers in order to deliver superior customer value at less cost to the supply chain as a whole. (Christopher, 2011).

Logistics Service Providers offer services that involves logistics of the supply chain; these include transportation, warehousing, inventory forecasting, order fulfilment, picking and packing, packaging and freight forwarding. They play a strategic role in a global supply chain as they have the experience, resources and capabilities to handle the globalised physical flows of goods efficiently and promptly (Lambourdiere, Corbin and Savage, 2013).

Motivation for outsourcing Logistics and SCM activities

Outsourcing of logistics involves the use of external companies, generally referred to as 3PL providers, to perform logistics functions which have traditionally been performed by the company itself. Organizations are motivated to outsource their advanced logistics and SCM activities for various reasons amongst which include:

1. Globalization – continuous growth in global markets and foreign sourcing.
2. Just-In-Time Principles – need for JIT delivery.
3. Lack of needed competence and resources within the company – encourages focus on core business.
4. Reduction of capital employed – ensures overall profitability of the business by reducing costs, reducing inventory and increasing sales.
5. Increased environmental awareness – facilitates interactions with other firms.
6. Increased flexibility – ability to adapt to varying market demand.
7. Emerging technology – time and cost involved in developing and implementing new technologies.
8. Risk Management – mitigate inherent risk.

LSPs driving performance improvement in Supply Chain

Logistics activities encompass the entire supply chain and are therefore instrumental in improving the supply chain's overall performance. Since they affect supply chain performance they are increasingly viewed as strategic partners who can play an exceptional role in improving SC performance and thereby provide a sustained competitive advantage (Haffer, 2018). The following are ways in which LSPs drive performance improvement in the supply chain:

1. Increased market coverage
2. Improved customer service/satisfaction
3. Reduction in capital investments
4. Reduction in the complexity of logistics operations
5. Increased flexibility towards the changing requirements of the customer
6. Improved economies of scale and scope
7. Efficient operations
8. Broader range of services
9. Access to international distribution networks
10. Utilization of ICT/information systems to fulfil the requirements of customers.

Supply Chain Performance

Supply Chain Performance refers to the extended supply chain's activities in meeting end-customer requirements, including product availability, on-time delivery, and all the necessary inventory and capacity in the supply chain to deliver that performance in a responsive manner (Hausman, 2004).

According to Estampe (2014), supply chain performance involves a set of principles; as stated below.

- i. decision-making should be coherent among all of the chain's actors.
- ii. the vision of the products/services expected by the customer should be aligned across the chain.
- iii. processes should be created together to make it possible for exchanges between actors in the chain.
- iv. utilization of tools that allow effective information synchronization to take place.

Forslund (2012) stated that performance management consists of five activities – selecting performance variables, defining metrics, setting targets, measuring and analysing. On-time delivery, picking accuracy, responsiveness, flexibility, transportation damage, quality when receiving goods, costs, on-time shipments and capacity utilization are some of the performance variables used by LSPs.

PART B – Case Study Analysis

Organizational Background – FUJITSU

Fujitsu Services is a leading European Information Technology services company, with over 19,000 employees in 20 countries; its Sourcing & Supply Services operation provides

purchasing and supply services for its major customers (Fujitsu, 2007). Also, its Technical Integration Centre offers IT engineering, configuration and repair services, recycle and disposal solutions; these are both supported by a warehousing and distribution facility that provides secure bonding and storage (Fujitsu, 2007).

Fujitsu's Supply Chain operation had customers in sectors such as banking, government and defence; and had such had to operate without errors or delays. However, in 2006 they had some issues and were failing. They recorded a 4.9% decrease in delivery time to customers, resulting in costs being incurred for rescheduled engineer visits and penalties for late installations. They had picking errors and had to rework many orders, employee drive was low with 14% absenteeism, warehouse capacity was full and they had to pay for offsite storage, SLAs were missed and productivity was running at a negative. Consequently, customer complaints increased, they risked losing key contracts and their reputation was severely damaged.

Implementing Lean in Fujitsu

Fujitsu applied Lean thinking across its operations, however this analysis focuses on the application in their Customer Services, Infrastructure Services and Sourcing and Supply Services.

1. Waste elimination/Pull control – the sourcing and supply services noted that they were holding a significant amount of redundant and aged stock occupying space, inhibiting efficiency and causing accidents. To solve this, they used the 5S' tools to eliminate wastage.
2. Value Stream Mapping – they created a high level value stream map of the current service delivery and designed a future state value stream map which outlined where it could be in a year. This helped to gather ideas and suggestions for improvement.
3. Kanban/Visual Management – they use a visual management technique which they refer to as the "Communication Hub" to monitor performance against targets. Control measures from problem solving sessions are also displayed to create awareness and initiate change.
4. Level Scheduling – the customer services use performance boards and a resource management tool to trach customer demand and balance capacity on an hourly basis.
5. Staff involvement – they changed from their command and control style of management to encouraging an empowered workforce. Staff have become more involved with the processes, share the organization's vision and are passionate about the success of the organization.
6. Customer Involvement – The sourcing and supply services realized that it had high level of inventory because of the way it related with its customers. It decided to get more involved with its customers to understand what is of value to them, decide on what has to be done to meet them, agree on what is wasteful and do away with it without affecting customer service.

Benefits of implementing lean

1. It helped to identify and resolve major operational issues which aided prompt and improved service deliver.

2. The simplification and standardization of processes reduced errors and enhanced customer service.
3. Staff involvement increased motivation and reduced absenteeism.
4. Increased productivity as a result of improved resource usage.
5. Cost reduction from waste elimination, duplicate efforts and unnecessary processes.
6. Created new revenue opportunities.